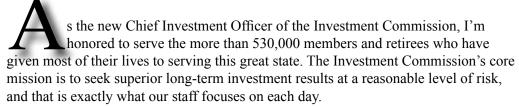
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SOUTH CAROLINA RETIREMENT SYSTEM Investment Commission



We hold ourselves to high standards, and we are committed to making improvements each day. While many economic, financial and policy challenges lie ahead, the investments we make are expected to generate solid returns with a reasonable level of risk over the long term. We are doing everything within our power to fulfill our investment responsibilities and to ensure retirement income for you and those who will follow you.

In assuming the responsibilities as the Chief Investment Officer, I feel that it is important to keep you informed about the progress at the Investment Commission. To that end, we will be sending periodic newsletters, like this one, to keep you in the know.

Kind Regards,

Hershel Harper, CIO



BY THE NUMBERS

Next Scheduled Commission Meeting

FY12 earnings

Portfolio Value \$25.3B

Rank of RSIC Hedge Fund Returns Among Public Pension Plans* *Source: Pensions & Investments, Oct. 17, 2011

Total Investment Income Added to the Plan

July '05-June '12 *Based on estimated FY12 earnings

MEET THE CIO

Hershel Harper, Jr., CFA has sixteen years experience in investment management, both in the public and private sectors. Most recently, he served as Deputy CIO for the RSIC. Previously, he's worked in various investment management positions for State Street Global Advisors, Bank of America, and Evergreen Investments. He lives in Columbia with his wife Jennifer and their daughter. *Read more here*.

WHAT ARE ALTERNATIVES?

Alternative investments can reduce risk by increasing diversification. Some examples of alternative investments are real estate, commodities and private equity.

Commodities: Basic goods that can act as a form of inflation protection, such as:

- Crude Oil
- Gold
- Natural Gas
- Cattle
- Corn

Real Estate: Expected to generate capital gains as property values increase over time.

- Office Buildings
- Hotels
- Retail

Private Equity: Generally consists of investments in private companies or buyouts of public companies, such as:

- Neiman Marcus
- Toys-R-Us
- Hilton Hotels

DID YOU KNOW?

"Increased allocations to alternatives have been largely rewarded as state funds with higher alternative allocations experienced higher 10 year returns than those with lower alternative allocations." <u>Source: Cliffwater, Trends in State Pension Asset</u>

Allocation and Performance, June 26, 2012.

SC RETIREMENT SYSTEM INVESTMENT COMMISSION | AUGUST 24, 2012

COMMISSION APPROVES NEW ASSET ALLOCATION

On March 12, 2012, the Commission approved a new asset allocation that went into effect on July 1, 2012. The changes are as follows:

- Increased Fixed Income from 19% to 25% of the portfolio
- Decreased Real Estate from 6% to 3%
- Decreased Private Markets from 18% to 17%
- Increased Commodities from 2% to 3%

See our entire Annual Investment Plan here.

KEY ADDITIONS TO THE AUDIT STAFF

RSIC has added new staff members to the Audit and Compliance department. Andrew Chernick has been hired as the Director of Audit and Compliance with the Commission. Mr. Chernick joins South Carolina from the Stanford University Endowment. Monica Houston has joined us from Delta Airlines as the Internal Audit and Compliance Officer. These key additions further RSIC's operational build-out and will bolster an already skilled and dedicated staff.

WILLIAM M. BLUME, JR. NAMED AS SEVENTH COMMISSIONER

William M. Blume, Jr., CPA, is the Executive Director of the South Carolina Public Employee Benefit Authority and the new, seventh member of the Investment Commission. Mr. Blume is a native of Charleston, South Carolina, and earned his Bachelor's degree in Economics from Presbyterian College, his Master's of Accountancy degree from the University of South Carolina, as well as a Master's of Taxation degree from the University of Denver Law School.

OPERATIONS UPDATE: ADDRESSING AND MANAGING OPERATIONAL RISK

The Commission developed a strategic plan in 2009 and documented many of the operational issues that needed to be addressed. It went a step further by hiring a national audit firm to conduct a risk assessment of the operations at RSIC. The assessment was completed in September 2011, and it identified the major operational risk areas of the agency.

Since the Commission's inception in 2005, it has been faced with two important, competing goals: expanding and creating a diverse, high-performance portfolio, and building out the technology and human resource infrastructure within the Commission. Because of the state of the economy at the time, diversifying the portfolio was top priority. Now that the assets are fully diversified, RSIC has the ability to focus on its operational build-out.

Much progress has already been made, and the Commission will continue to make strides toward the goal of mitigating any and all potential risk factors.